

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

13 February 2014

Supplementary Report of the Chief Executive, Director of Finance and Transformation, Leader of the Council and Cabinet Member for Finance, Innovation and Property

Part 1- Public

Matters for Recommendation to Council

1 SETTING THE BUDGET 2014/15

Further to reports to the meeting of the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee earlier in the cycle, this report updates Cabinet on issues relating to the Medium Term Financial Strategy. It also takes Members through the necessary procedures in order to set the Budget for 2014/15.

1.1 Introduction and Foreword

- 1.1.1 At the Full Council meeting on 18 February, Members will determine both the Budget and the level of council tax for 2014/15. The detailed Estimates for 2014/15 prepared by your Officers, having regard to the guidance given by Cabinet, have been carefully considered by the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee. Details are set out at paragraph 1.3 below.
- 1.1.2 Whilst the primary purpose of this report is for Cabinet to recommend the Budget and resultant level of council tax for 2014/15; as ever, this one year cannot be viewed in isolation. This budget sits within the context of our Medium Term Financial Strategy covering a ten-year period. Financial decisions made in respect of the year 2014/15 will have an impact across the Medium Term Financial Strategy and upon the savings targets the Council will need to achieve in order to 'balance its books'. As Members will fully appreciate, it has been one of the Council's strong objectives throughout these times of 'challenge' to preserve, for as long as possible, the Services that are provided to and valued by residents. However, we must not lose sight of the scale of this particular 'challenge'.
- 1.1.3 Members will no doubt be aware of the Government's proposal to freeze council tax in 2014/15 and 2015/16. To this end the Government has announced that it will provide funding equivalent to a 1.0% increase in council tax in respect of the

2014/15 freeze grant scheme (the 2015/16 freeze will be a separate scheme) and that the funding for council tax freezes in 2014/15 and 2015/16 will **be built into the spending review baseline. If interpreted correctly, this is important because it appears that the government is to adopt a different approach to 'freeze grant' than in previous years** where the 'benefit' of the grant funding disappeared after one (or possibly two) years and it became a bit of a 'double-edged sword'. It remains the case, of course, that where the proposed council tax increase is more than 1% the Council will be worse off financially if it was to accept the freeze grant.

- 1.1.4 Also, the Localism Act requires a local authority to seek the approval of their electorate via a local referendum if it proposes to raise council tax above the threshold set by the Secretary of State. On 5 February 2014 it was announced that the threshold had been set at 2.0% (including levies) for the year 2014/15; and as a result the 'trigger point' is 1.99%.
- 1.1.5 It is for Members at both Cabinet and Full Council to weigh up the merits of accepting the government grant and to freeze council tax as opposed to an increase of 1.99%. Cabinet's role is to provide guidance or recommendations to the Full Council as to the way forward. In terms of the Medium Term Financial Strategy if the Council do accept the grant on offer and freeze council tax in 2014/15, it is assumed this will be the case in 2015/16.
- 1.1.6 It must be remembered that, **in either case**, the Council continues to face a significant financial challenge in respect of identifying and implementing savings over the coming years. As Members are aware, we set a target of achieving savings of £900,000 by 31 March 2014 this time last year and increased in-year to £1.1m following the 2013 Spending Review. Beyond March 2014 it is estimated **further savings** of circa £1.875m need to be identified and implemented over the medium term should a council tax increase of 1.99% be approved; alternatively those savings will increase by a further £250,000 should the 'freeze' grant be accepted and the council tax frozen.
- 1.1.7 This report necessarily touches on a number of related areas (some of which are complex) that the Director of Finance and Transformation is required to draw to Members' attention in order to provide assurance and advice to aid decision making. The report is, therefore, broken down into sections dealing with the following areas:
- Local Government Finance Settlement
 - Revenue Estimates 2014/15
 - Fees and Charges
 - Capital Plan

- Prudential Code and Treasury Management Strategy Statement and Annual Investment Strategy
- Consultation with Non-Domestic Ratepayers
- Update of Medium Term Financial Strategy
- Collection Fund Adjustments
- Parish Councils
- Robustness of Estimates / Adequacy of Reserves
- Calculation of Borough Council's Tax Requirement

1.2 Local Government Finance Settlement

- 1.2.1 On 18 December 2013, provisional Settlement Funding Assessments for 2014/15 were published along with indicative figures for 2015/16. The Final local government finance settlement was published on 5 February.
- 1.2.2 Our Settlement Funding Assessment for 2014/15 is £4,357,118 (being only £601 different to the provisional settlement). This represents a cash decrease of £676,137 or 13.4% when compared to the equivalent figure of £5,033,255 in 2013/14. Included in the Settlement Funding Assessment is the parish councils' indicative allocation in respect of the council tax support scheme, however, it is not separately identified as it was in 2013/14.
- 1.2.3 In addition, the Council's grant award under the New Homes Bonus (NHB) scheme in 2014/15 is £2,395,874 compared to £1,636,217 in 2013/14. Grant funding including NHB is, therefore, £6,752,992. A breakdown of the total grant funding into the various funding streams is set out in the table below.

	2013/14 £	2014/15 £	Cash Increase / (Decrease)	
			£	%
Local Share of Business Rates	2,010,774	2,049,945	39,171	1.9
Revenue Support Grant	3,022,481	2,307,173	(715,308)	(23.7)
Settlement Funding Assessment	5,033,255	4,357,118	(676,137)	(13.4)
New Homes Bonus	1,636,217	2,395,874	759,657	46.4
Total Grant Funding	6,669,472	6,752,992	83,520	1.3

- 1.2.4 In recent years the government has referred to the increase / (decrease) in an authority's **spending power**; and this is what tends to be quoted in media

coverage. The calculation of the spending power is rather complex but, for **simplicity purposes**, although it is not exactly the same, TMBC's spending power can be taken to be the percentage increase / (decrease) in **total** grant funding. As can be seen from the table above our total grant funding increased by 1.3% and the increase in spending power calculated by the government is given as 1.1%. Members will note that the increase in overall funding and spending power is attributable to the fact that our grant award under the NHB more than negates the decrease in our Settlement Funding Assessment.

- 1.2.5 This outcome is not entirely surprising because the Council has been doing exactly what is being asked of it by the government: **facilitating housing investment and, in turn, stimulating economic growth**. The number of new dwellings completed and included in the calculation for NHB in 2014/15 was extremely good and surpassed our own 'realistic' expectation. This was, therefore, a 'good' year; however the risk is that this is an extremely volatile form of funding and other years may not prove to be so good! It is also worth noting that there is an ongoing cost to the 'public purse' as a result of new housing developments, e.g. refuse collection and recycling and street cleansing which has to be paid for from council tax and central government funding.
- 1.2.6 Our concern has always been what happens when NHB in its current form 'ceases' and/or it is replaced by something else, and we hit the metaphorical 'cliff edge'. Putting to one side NHB, it is worth noting that, **of the twelve district councils in Kent, Tonbridge & Malling Borough Council continues to receive the lowest Settlement Funding Assessment both in total and per head**.
- 1.2.7 The Settlement also gives indicative figures for 2015/16 – to assist us in forward planning. Our indicative Settlement Funding Assessment for 2015/16 is £3,684,595. This represents a cash decrease of £672,523 or 15.4% when compared to the equivalent figure of £4,357,118 in 2014/15. Again, the Settlement Funding Assessment includes the parish councils' indicative allocation in respect of the council tax support scheme.
- 1.2.8 In addition, the Council's grant award under the NHB scheme in 2015/16 is estimated to be £2,943,073 compared to £2,395,874 in 2014/15. (The 'actual' NHB for 2015/16 will not be known until returns have been compiled during the course of next year regarding completions, so this is truly an estimate at this point.)

Total grant funding including NHB is, therefore, anticipated to be £6,627,668 in 2015/16; which is a 1.9% reduction on the 2014/15 total funding. A breakdown of the total grant funding into the various funding streams is set out in the table below.

	2014/15 £	2015/16 £	Cash Increase / (Decrease)	
			£	%
Local Share of Business Rates	2,049,945	2,106,525	56,580	2.8
Revenue Support Grant	2,307,173	1,578,070	(729,103)	(31.6)
Settlement Funding Assessment	4,357,118	3,684,595	(672,523)	(15.4)
New Homes Bonus	2,395,874	2,943,073	547,199	22.8
Total Grant Funding	6,752,992	6,627,668	(125,324)	(1.9)

- 1.2.9 A comparison of our Settlement Funding Assessment for 2014/15 and indicative allocation for 2015/16 with those of other Kent district councils is provided at **[Annex 1a]**.
- 1.2.10 Attached at **[Annex 1b]** for Members' information is a copy of the Referendums Principles setting out the level of council tax increase for 2014/15 above which the local authority would be required to seek the approval of their electorate via a local referendum; and at **[Annex 1c]** a letter setting out the terms of the council tax freeze scheme 2014/15.

1.3 Revenue Estimates 2014/15

- 1.3.1 As mentioned in the Foreword, the draft Revenue Estimates for 2014/15 were presented to the meeting of the Finance, Innovation and Property Advisory Board and the Overview and Scrutiny Committee earlier in the cycle. The role of the Advisory Board and of the Committee is to assist both the Cabinet and the Council in the development of its budget within the context of the Medium Term Financial Strategy and the Council's priorities. Whilst a number of questions were posed by Members at these meetings, the Revenue Estimates as presented were endorsed.
- 1.3.2 Since the 'holding' report an adjustment has been made to the 2013/14 Revised Estimates in respect of small business rate relief under the Business Rates Retention scheme and as set out in the 'holding' report whether the Council makes a decision to accept the 'freeze' grant or not affects the 2014/15 Estimates as detailed in the table below.

	Revised Estimate 2013/14 £	Original Estimate 2014/15 (no freeze) £	Original Estimate 2014/15 (freeze) £
Summary Total reported to Finance, Innovation and Property Advisory Board on 8 January	13,494,300	13,419,200	13,419,200
Small Business Rate Relief Grant 2013/14	(336,150)		
Council Tax Freeze Grant 2014/15			(87,300)
Current Summary Total	13,158,150	13,419,200	13,331,900

1.3.3 Members' attention is returned to the issue of the council tax freeze later in the report.

1.4 Fees and Charges

1.4.1 During the course of this budget cycle Members have, via the appropriate Advisory Board, made recommendations regarding the levels of fees and charges to be implemented. As Members have been advised previously, whilst drafting these Estimates it had been assumed that the recommendations made would be agreed by the Cabinet.

1.4.2 At the meeting of Cabinet on 4 February, the fees and charges recommended by the appropriate Advisory Boards were approved. A summary of the recommendations is set out at **[Annex 2]** for completeness.

1.5 Capital Plan

1.5.1 As reported in the holding report, the Capital Plan Review process started at the Finance, Innovation and Property Advisory Board on 8 January followed by the Overview and Scrutiny Committee on 28 January.

1.5.2 Members' attention was drawn to the considerable financial pressure facing the Council's revenue budget and the impact capital projects can have on revenue. It was, however, also acknowledged that some capital projects can have a beneficial effect on the revenue position by either generating additional or new income, or alternatively producing cost savings in due course.

1.5.3 Members were reminded of the criteria established a few years ago to guide the inclusion of new schemes to List C (wish list) and ultimately the inclusion of schemes on List A (schemes assigned budget provision). The criteria are:

- to meet legislative requirements including health and safety obligations;

- funded from external resources; and
 - generate income or reduce revenue expenditure.
- 1.5.4 For Members awareness, the subsequent recommendations where appropriate have regard to these criteria.
- 1.5.5 Members were also reminded that the revenue reserve for capital schemes provided the main source of funding for existing and any new schemes that are introduced into the Capital Plan.
- 1.5.6 It is important to ensure that the revenue reserve for capital schemes can continue to fund capital expenditure at least until we reach a position where the annual contribution to the reserve matches the funding required for the replacement of our assets which deliver services as well as recurring capital expenditure. In order to get to this position there is now an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the annual allowance. Members are reminded that in setting the budget for 2013/14 that allowance was set at £320,000. It should be noted that the Council, in due course, will need to borrow to fund such expenditure.
- 1.5.7 The Finance, Innovation and Property Advisory Board endorsed the recommendations as detailed in the papers, as did the Overview and Scrutiny Committee subject to the recommendation as detailed in paragraph 1.5.9 (2). The recommendations were:
- 1) Cabinet be asked to endorse the Capital Plan (List A) position as shown in Annex 2 of the Capital Plan Booklet summarised at **[Annex 3]**.
 - 2) The schemes listed in **[Annex 4]** are added to List C or deleted from List C as detailed.
 - 3) The schemes listed in **[Annex 5]** are selected for evaluation over the coming year.
 - 4) The evaluated List C schemes are progressed in accordance with the recommendation shown in **[Annex 6]**; and in the case of the river wall, Wouldham scheme a specific earmarked reserve is established in the sum of £700,000 and that this scheme sits outside the annual allowance of £320,000 with an implementation date for capital plan purposes of 2015/16.
 - 5) Cabinet be asked to endorse the Capital Strategy at Annex 5 for adoption by Council and publication on the Council's website.
- 1.5.8 The estimated annual revenue costs of the evaluated List C schemes are given in the table below. The amount and timing of any revenue impact depends on the profiling of the capital expenditure and the timing of any changes in activity levels

which generate changes to running costs or income. It can be seen that if the schemes recommended for transfer from List C to List B are transferred to the Capital Plan (List A) the estimated revenue consequence is £14,000 in 2014/15 and £39,950 in subsequent years.

Scheme	Capital Cost £	Revenue Impact	
		2014/15 £	2015/16 £
Wouldham River Wall	700,000	-	35,000
Refurbishment of Lifestyles Health Suite	240,000	12,000	3,700
Leisure Centres – Energy Saving Measures	40,000	2,000	1,250
Total	980,000	14,000	39,950

1.5.9 Members are asked to note the following changes made to the Capital Plan reported to the Finance, Innovation and Property Advisory Board and Overview and Scrutiny Committee.

- 1) Government grant in respect of Disabled Facilities Grants for 2014/15 is £424,000 which is £9,000 more than that reflected in the Capital Plan. This additional sum has been added to both income and expenditure lines in the Capital Plan, so there is an overall 'neutral' effect.
- 2) The Overview and Scrutiny Committee on 28 January endorsed the recommendations set out in the report of the Overview and Scrutiny Review Group charged with looking at Disabled Facilities Grants and Housing Assistance funding. The Capital Plan has been adjusted accordingly.
- 3) The final settlement of the payment to the contractor in respect of the East Peckham Dam has been the subject of dispute for some years now. The outcome of the adjudication process is that the Council has an outstanding payment to make to the contractor of £87,468, plus a fee payment to the adjudicator of £6,773. In challenging the case put by the contractor we also incurred approximately £39,000 of costs, bringing the total commitment outstanding against the project to £133,241. The Capital Plan has been adjusted accordingly.

1.5.10 An updated summary of the Capital Plan incorporating the schemes listed in paragraph 1.5.8, together with the changes set out in paragraph 1.5.9 is attached at **[Annex 7]**.

1.5.11 A funding statement based on **[Annex 7]** is attached at **[Annex 8]**. The main source of funding is the Revenue Reserve for Capital Schemes and the impact on the Revenue Reserve for Capital Schemes is illustrated in **[Annex 9]**.

1.5.12 Accordingly, it is **RECOMMENDED** that:

- 1) Cabinet approves the position of the existing Capital Plan (List A) as summarised in **[Annex 3]**.
- 2) Cabinet approves that the schemes as detailed in **[Annex 4]** are added to List C or deleted from List C.
- 3) Cabinet approves the selection of those schemes listed in **[Annex 5]** for evaluation over the coming year.
- 4) Cabinet approves the transfer of the schemes detailed in **[Annex 6]** to the Capital Plan (List A). In the case of the river wall, Wouldham scheme a specific earmarked reserve is established in the sum of £700,000 and that this scheme sits outside the annual allowance of £320,000 with an implementation date for capital plan purposes of 2015/16.
- 5) Cabinet approves the updated Capital Plan (List A) as summarised in **[Annex 7]**.
- 6) Cabinet endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 8 January and the Overview and Scrutiny Committee on 28 January.

1.6 Prudential Code and Treasury Management Strategy Statement and Annual Investment Strategy

- 1.6.1 The Local Government Act 2003 and its subsidiary regulations set out the framework for the system of capital controls which applied from 1 April 2004 whereby local authorities must set their own borrowing limits with regard to affordability, prudence and sustainability. Underpinning this is a requirement to follow the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.6.2 The Prudential Code requires that the CIPFA Treasury Management Code of Practice (the Code) is adopted and that a number of prudential indicators are set. Council adopted the December 2009 edition of the Code of Practice on Treasury Management on 18 February 2010 and due regard has also been given to subsequent revisions in preparing the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15.
- 1.6.3 The Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15 was reported to Cabinet on 4 February. The approval of the Strategy and determination of the prudential indicators has to be made by the body setting the Council Tax, i.e. Full Council, as do amendments to either the Strategy or indicators during the year.
- 1.6.4 The CIPFA Prudential Code for Capital Finance in Local Authorities under the auspices of the Local Government Act 2003 and subsidiary regulations requires that a number of treasury management prudential indicators are set as follows :

- 1) The capital financing requirement - the extent to which the authority needs to undertake external borrowing to support its capital programme.
- 2) The operational boundary for external debt.
- 3) The authorised limit for external debt.
- 4) The actual external debt.
- 5) The upper limit for fixed interest rate exposure.
- 6) The upper limit for variable rate exposure.
- 7) The upper limit for total principal sums invested for over 364 days.
- 8) The maturity structure for new fixed rate borrowing during 2014/15.

A summary of the indicators appears in the table below:

Treasury Management Prudential Indicators					
Prudential Indicator	2012/13 Actual £'000	2013/14 Revised Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
The capital financing requirement	NIL	NIL	NIL	NIL	NIL
The operational boundary for external debt	NIL	2,000	2,000	2,000	2,000
The authorised limit for external debt	NIL	5,000	5,000	5,000	5,000
Actual external debt	NIL	NIL	NIL	NIL	NIL
The upper limit for fixed interest rate exposure >1 year at year end	NIL	It is anticipated that the net exposure will range between 0% to 60%			
The upper limit for variable rate exposure < 1 year at year end	16,767 80.5%	It is anticipated that the net exposure will range between 40% to 100%			
The upper limit for total principal sums invested for over 364 days at year end	NIL	60% of core funds			
The maturity structure for new fixed rate borrowing during 2014/15		Upper Limit		Lower Limit	
Under 12 months		100%		NIL	
Over 12 months		NIL		NIL	

1.6.5 The capital financing requirement measures the amount of external borrowing that the Council expects to have to undertake in support of its capital programme. A nil figure indicates that no borrowing is required. As this Council is debt free and, for the foreseeable future, does not expect to have to borrow to support its capital programme, this indicator does not change over the period covered.

- 1.6.6 The operational boundary is designed to cover all day to day borrowing requirements. As this Council is debt free, borrowing is only undertaken on a short-term basis to cover cash flow management. Experience suggests that an operational boundary of £2.0m will be sufficient to cover all likely contingencies.
- 1.6.7 The authorised limit is intended to provide a degree of headroom above the operational boundary to cover unexpected and unusual borrowing requirements. A limit of £5.0m is estimated to be sufficient to cover such eventualities.
- 1.6.8 The other prudential indicators which we are required to set are shown in the table below:

Prudential Indicators

1.	Ratio of actual and estimated financing costs to the net revenue stream	(Interest payable with respect to borrowing less interest and investment income) ÷ (government grants plus call on local taxpayers) x 100%.					
No freeze							
2012/13 actual	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated	2019/20 estimated
-2.83%	-1.30%	-1.42%	-1.27%	-2.57%	-3.61%	-4.47%	-4.54%
Freeze							
2012/13 actual	2013/14 estimated	2014/15 estimated	2015/16 estimated	2016/17 estimated	2017/18 estimated	2018/19 estimated	2019/20 estimated
-2.83%	-1.30%	-1.43%	-1.28%	-2.57%	-3.58%	-4.41%	-4.46%
2.	Estimates of the incremental impact of capital investment decisions on the Council Tax	The revenue impact of capital schemes added to the ongoing capital plan on the Council Tax Band D Equivalent. The figures below show the estimated effect on the Borough Council's Band D equivalent of the addition of List B schemes to list A. A more detailed version of this indicator appears in [Annex 10] .					
Total		2014/15 estimated £	2015/16 estimated £	2016/17 estimated £	2017/18 estimated £	2018/19 estimated £	2019/20 estimated £
		0.30	0.57	0.00	0.00	0.00	0.00
3.	Actual and estimated capital expenditure	This indicator is based on the updated capital plan position. The figures are based on those shown in [Annex 8] .					
2012/13 actual £'000	2013/14 estimated £'000	2014/15 estimated £'000	2015/16 estimated £'000	2016/17 estimated £'000	2017/18 estimated £'000	2018/19 estimated £'000	2019/20 estimated £'000
2,759	2,646	3,348	2,638	1,650	1,860	1,687	1,465

- 1.6.9 We, therefore, **RECOMMEND** that for the financial year 2014/15 the prudential indicators listed in paragraphs 1.6.4 and 1.6.8 be recommended to Council for adoption.

- 1.6.10 A local authority has a statutory duty to “determine for the current financial year an amount of minimum revenue provision that it considers to be prudent” in relation to its capital expenditure. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try and match the years over which such assets benefit the local community through their useful life.
- 1.6.11 The spreading of these costs is through what is termed an annual minimum revenue provision. As the Council is debt free and, for the foreseeable future, does not expect to borrow to support its capital programme the minimum revenue provision is nil. Guidance issued by the Government also recommends that a Minimum Revenue Provision Policy Statement be prepared. We propose to prepare such a Statement at a time when our capital expenditure plans cannot be met without recourse to borrowing.
- 1.6.12 We, therefore, **RECOMMEND** that for the financial year 2014/15 our Minimum Revenue Provision is nil.

1.7 Consultation with Non-Domestic Ratepayers

- 1.7.1 Representatives of the Council’s Non Domestic Ratepayers have been consulted in respect of the draft revenue budget and capital plan. The consultees, who include the local Chambers of Commerce as well as a group of the larger ratepayers in the Borough receive on request information and copies of the draft budgets and are invited to make written representations if they deem it appropriate. The deadline given for responses was 17 January 2014. ***Cabinet is advised that no comments have been received.***

1.8 Update of Medium Term Financial Strategy

- 1.8.1 To recap, the Council’s Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The Medium Term Financial Strategy affords the opportunity to take a measured and structured approach to budget issues rather than a “knee jerk” reaction. The aim of the Medium Term Financial Strategy is to give us a realistic and sustainable plan that reflects the Council’s priorities and takes us into the future.
- 1.8.2 The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council’s spending plans. Underneath the Strategy for the budget setting year sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures.
- 1.8.3 Members are fully aware that the Council continues to face a significant financial challenge as a result of the Coalition Government’s budget deficit reduction programme which has resulted in a reduction in the financial support it can offer to

local government and the current economic climate, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

1.8.4 The Medium Term Financial Strategy sets out the high level objectives the Council wishes to fulfil over the agreed time span and which are:

- To achieve a **balanced revenue budget** that delivers the Council's priorities by the end of the strategy period.
- To retain a **minimum of £2.0m** in the General Revenue Reserve by the end of the strategy period.
- Seek to set **future increases in council tax having regard to the guidelines** issued by the Secretary of State.
- Over the strategy period, **continue to identify efficiency savings and opportunities for new or additional income sources** within the Council's budget to contribute towards the identified 'funding gap'; and, if necessary thereafter, **seek appropriate reductions in service costs** following consultation, as necessary, with taxpayers.
- Set a **maximum 'annual capital allowance'** each year as part of the budget setting process for all new capital schemes (set at £320,000 from the Council's own resources) and give priority to those schemes that generate income or reduce costs.

1.8.5 The budget for 2014/15 is, naturally, the starting point for updating the Medium Term Financial Strategy. Referring to paragraph 1.3.2 Members will note that the Summary Total for the 2013/14 Revised Estimates is £13,158,150; and for the 2014/15 Estimates is £13,419,200 (no freeze) and £13,331,900 (freeze) and are used in the budget projections in the Medium Term Financial Strategy at **[Annex 11a] and [Annex 11b]** respectively.

1.8.6 Members may recall the report to the Advisory Board in August 2013 which gave an early assessment of the impact, on the Council's finances and MTFs, of the 2013 Spending Review announced in June and subsequent consultation papers.

1.8.7 Based on that assessment it was suggested that the first savings tranche would need to increase by £200,000 to £1.1m and that the additional pressure of £200,000 was tackled as part of the 2014/15 budget setting process.

1.8.8 We are extremely pleased to confirm that in total, and after taking into account issues that take the 'funding gap' in the wrong direction, **net savings in excess of £1.2 million have been achieved against the target set of £1.1 million** when compiling the Revenue Estimates for 2014/15. Although there is little or no time to

take stock of this achievement, given that there are more challenges ahead, we should do so if only for a moment.

1.8.9 When updating the MTFs we need to take into account the following (not exclusive) factors:

- those factors that have contributed towards addressing the ‘funding gap’;
- those factors that have taken matters in the ‘wrong’ direction;
- the announcement on the level of council tax increase for 2014/15 above which the local authority would be required to seek the approval of their electorate via a local referendum and the government’s commitment in partnership with local authorities to freeze council tax in England for a further year;
- the ongoing impact of the Business Rates Retention scheme; and
- award of New Homes Bonus.

1.8.10 We have already alluded, within this report and previous reports, to both the offer of a council tax freeze grant and the ‘trigger point’ for a local referendum.

1.8.11 In respect of the latter, the Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.

1.8.12 On 5 February, the Government set the level of council tax increase for 2014/15 at which it intends to require the local authority to seek approval of their electorate via a local referendum at 2.0% or more (including levies) and as a result the ‘trigger point’ is 1.99%.

1.8.13 Members will no doubt be aware of the Government’s proposal to assist Councils in freezing council tax in 2014/15 and 2015/16. To this end the Government has announced that it will provide funding equivalent to a 1.0% increase in council tax in respect of the 2014/15 freeze grant scheme (the 2015/16 freeze will be a separate scheme) and that the funding for council tax freezes in 2014/15 and 2015/16 will **be built into the spending review baseline. If interpreted correctly, this is important because it appears that the government is to adopt a different approach to ‘freeze grant’ than in previous years** where the ‘benefit’ of the grant funding disappeared after one (or possibly two) years and it became a bit of a ‘double-edged sword’. It remains the case of course that where the proposed council tax increase is more than 1% the Council will be worse off financially if it was to accept the freeze grant.

1.8.14 There are clearly 'pros' and 'cons' of levying a small increase in council tax (option 1) and similarly accepting the freeze grant (option 2). Some of the headline statistics for the two 'options' are as follows:

	Option 1 (Increase 1.99%)	Option 2 (Freeze)
<u>2014/15</u>		
Council Tax Band D	£183.85	£180.26
Increase per annum	£3.59	£0
Increase per week	7 pence	0 pence
Anticipated Council Tax Income	£8,421,000	£8,257,000 excl freeze grant
<u>MTFS</u>		
Total Base budget savings required:	£1.875m	£2.125m
The savings could be broken down into tranches. For example:		
First tranche by 1 April 2015	£200,000	£200,000
Second tranche by 1 April 2016	£450,000	£525,000
Third tranche by 1 April 2017	£700,000	£775,000
Fourth tranche by 1 April 2019	£525,000	£625,000
Reserve balance at end of period	£4.392m	£3.950m

1.8.15 Based on latest projections it can be seen from the above that:

- If Members were minded to **increase the council tax by 1.99%**, the 'funding gap' (savings target) is circa £1.875m and as in previous iterations of the MTFS we could breakdown the savings target into tranches. For example, the savings target could be broken down into three tranches (tranche one £650,000, tranche two £700,000 and tranche three £525,000) to be achieved by 2016/17, 2017/18 and 2019/20 respectively. However, in order to maintain momentum and focus, following discussion with the Leader and Cabinet Member for Finance, Innovation and Property it is the Management Team's intention to set a savings target for next year by breaking out the first savings tranche into two parts – i.e. say £200,000 followed by £450,000.
- If Members were minded **to implement the 'freeze'** and accept the grant the 'funding gap' (savings target) is circa £2.125m. In this case, the savings target could again be broken down into three tranches (tranche one £725,000, tranche two £775,000 and tranche three £625,000) to be achieved by 2016/17, 2017/18 and 2019/20 respectively. Again, in order to

maintain momentum and focus it would be the Management Team's intention to set a savings target for next year by breaking out the first savings tranche into two parts – i.e. say £200,000 followed by £525,000.

- 1.8.16 It can be seen from the above that the implications of accepting the grant to freeze council tax as opposed to a council tax increase of 1.99% adds £250,000 to the overall savings we have to make. **[Annexes 11a and 11b]** set out the picture for the Medium Term Financial Strategy. A graphical representation of the implications is given at **[Annex 11c]**.
- 1.8.17 In arriving at this assessment, we have assumed that there will be a phased withdrawal of the current NHB model from 2016/17 onwards and that the model will be replaced with something else, but with a reduced level of funding. It should be noted that, depending on how any replacement 'model' allocates funding to individual local authorities, there is a real risk that the Council could see its **overall grant funding reduce by more than is presently reflected in the Medium Term Financial Strategy**. It is of course impossible to estimate with any certainty what that might mean for TMBC, but our working assumption is that this could require a **further potential savings tranche of circa £700,000**.
- 1.8.18 In addition, for medium term financial planning purposes we have assumed that the business rates baseline attributed to TMBC is not notably different to the actual business rates income. If our actual income is less than the baseline set the authority will have to **meet a share of that shortfall up to a maximum of circa £150,000 in year one**. It should be noted that this figure increases each year in line with inflation.
- 1.8.19 You will see from just these two issues that there is so much uncertainty that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.8.20 The ability to effectively delay the implementation of the savings targets gives us the opportunity to 'test' and discuss proposals for any potential service reductions that might be necessary with our taxpayers with sufficient time to, where appropriate, adjust them. **Clearly, we will need to continue to look to take advantage of savings opportunities and efficiencies throughout this period as a matter of course**. We hope this will at least give Members some comfort and reassurance concerning the resilience of our Medium Term Financial Strategy and that the financial pressures facing the Council can be addressed in a measured and controlled way, but at the same time we should not underestimate the magnitude of the financial challenge faced by the Council.
- 1.8.21 Turning back to the specific budget year 2014/15, a Summary of the Revenue Estimates Booklet for both a council tax increase of 1.99% and a council tax freeze are attached at **[Annex 12a]** and **[Annex 12b]** respectively. Members should note that the budget for 2014/15 is supported by a take from reserves of £1,076,850 (council tax increase 1.99%) and £1,154,000 (council tax freeze).

1.8.22 Cabinet is **RECOMMENDED** to:

- 1) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.99% and council tax freeze respectively including the approach adopted in respect of business rates income and New Homes Bonus.
- 2) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2014/15.

1.9 Collection Fund Adjustments

1.9.1 As the billing authority for the area, this Council has responsibility for maintaining the 'collection fund' accounts into which business rates and council tax are paid.

1.9.2 Each year before we can finalise our calculations in respect of the tax requirements, we have to:

- estimate the surplus / deficit on the collection fund in respect of council tax and then share this between the major precepting authorities (including ourselves); and
- estimate the surplus / deficit on the collection fund in respect of business rates and then share this between the relevant parties in accordance with the Business Rates Retention scheme.

1.9.3 These are known as collection fund adjustments:

- The **surplus** on the collection fund in respect of council tax is estimated to be £644,867, of which our share is £96,803 **[Annex 13a]**.
- The **deficit** on the collection fund in respect of business rates is estimated to be £1,331,818, of which our share is £532,727 **[Annex 13b]**. In order to determine where we are compared to our business rates baseline based on this estimate we need to deduct the small business rate relief grant of £336,150 and the on account payment above the baseline of £147,850. This suggests a shortfall against the 2013/14 baseline of £48,727 to be met in full by the Council.

1.10 Parish Councils

1.10.1 For completeness, Cabinet is reminded that the Borough Council's expenditure is inclusive of the payments to Parish Councils under the Borough Council's Scheme of Financial Arrangements. Details of the Financial Arrangements for 2014/15 are set out at **[Annex 14]** for Members' information.

1.10.2 Also, the Parish Councils were notified on 6 December of their grant allocation in respect of the council tax support scheme. This funding now forms part of the

overall Settlement and is not separately identified as it was in 2013/14. As a result the funding available was reduced by 0.8% (from £173,111 to £171,726) representing the decrease in the Borough Council's Settlement including New Homes Bonus in the previous year. This is consistent with the approach adopted in respect of allocations under the Scheme of Financial Arrangements with Parish Councils.

1.10.3 In addition, the precepts of the Parish Councils are the Special Area expenses of the Borough Council for the purpose of setting the Council Tax. Details of Parish Council precepts notified to the Borough Council are given at **[Annex 15]**.

1.11 Robustness of Estimates / Adequacy of Reserves

1.11.1 The Council is required to have regard to the level of its balances and reserves before determining its council tax requirement. **[Annexes 16a and 16b]** sets out the Council's projected revenue reserve balances based on a council tax increase of 1.99% and council tax freeze respectively.

1.11.2 The Local Government Act 2003 requires the Chief Financial Officer (in our case the Director of Finance and Transformation) to report to an authority, when making the statutory calculations required to determine its council tax, on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

1.11.3 What is required is the professional advice of the Director of Finance and Transformation on these two questions. This responsibility is discharged by way of a certified Statement.

1.11.4 The Director of Finance and Transformation has stressed that the absolute detail of the Statement varies depending upon whether the Council opts to take the council tax freeze grant, or alternatively increases council tax and thereby provides a greater source of income for future years.

1.11.5 That said, the Director of Finance and Transformation advises that, in both scenarios, she is satisfied as to the Robustness of the Estimates and the Adequacy of Reserves on the understanding that the savings target each scenario would produce is fully honoured and delivered. Clearly, as has been outlined above, the savings challenge increases should the Council opt to accept the council tax freeze grant.

1.11.6 A Statement covering the points above is appended at **[Annex 17]**. Members will appreciate that the volatility in business rates income is a 'new' risk that has to be factored into our financial planning, and the Statement itself.

1.11.7 A schedule of the reserves held by the Council at the 1 April 2013 and proposed utilisation of those reserves to the 31 March 2015 is provided for both a council tax increase of 1.99% and council tax freeze at **[Annex 17]** Table A and B respectively. As this Council's Chief Financial Officer, the Director of Finance and

Transformation has undertaken a review of the earmarked reserves held and is satisfied as to the position depicted in the Tables and will revisit the position as part of the closedown process for 2013/14.

1.11.8 Members will note that overall the Director of Finance and Transformation signifies that, in her professional opinion, the estimates are robust and the level of reserves adequate.

1.11.9 Members are **RECOMMENDED** to note and endorse the Statement provided by the Director of Finance and Transformation.

1.12 Calculation of Borough Council's Tax Requirement

1.12.1 The Council is required to calculate:

- Its aggregate expenditure which, for this purpose, includes our share of any Collection Fund deficit and the Parish Council precepts.
- Its aggregate income which, for this purpose, includes our share of any Collection Fund surplus and the Local Government Finance Settlement (see paragraph 1.2).
- The amount by which the aggregate expenditure exceeds the aggregate income is to be its council tax requirement for the year.

1.12.2 Assuming Cabinet's concurrence with the recommendations set out in paragraph 1.8.22, the calculation for both a council tax increase of 1.99% and council tax freeze is set out at **[Annex 18a and 18b]** respectively for information. It should be noted that, for this purpose, the Borough Council's council tax requirement includes the Parish Council precepts.

1.13 Legal Implications

1.13.1 There are a number of legislative requirements to consider in setting the Budget which will be addressed as we move through the budget cycle.

1.13.2 The Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or veto the rise.

1.14 Financial and Value for Money Considerations

1.14.1 As set out above.

1.15 Risk Assessment

- 1.15.1 The Local Government Act 2003 requires the Chief Financial Officer, when calculating the Council Tax Requirement, to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. Consideration will and is given to the risks associated with any budget setting process where various financial and other assumptions have to be made. To mitigate the risks detailed estimates are formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures and external advice on assumptions obtained where appropriate.
- 1.15.2 The Medium Term Financial Strategy sets out the high level financial objectives the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the Strategy period. As the Council's high level financial planning tool the Strategy needs to be reviewed and updated at least annually and in the current climate regularly reviewed by Management Team.
- 1.15.3 There is so much uncertainty and volatility particularly in some of our major sources of income that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections.
- 1.15.4 Any increase in council tax above the relevant threshold, even by a fraction of a percentage point, would require a referendum to be held.
- 1.15.5 In addition, not identifying and implementing the requisite savings will put at risk the integrity of the Medium Term Financial Strategy.

1.16 Equality Impact Assessment

- 1.16.1 See 'Screening for equality impacts' table at end of report

1.17 Summary of Recommendations

- 1.17.1 Cabinet is **RECOMMENDED** to:
- 1) Update the Capital Plan as set out in paragraph 1.5.12 and recommend that Council adopt the Capital Plan accordingly. In the case of the river wall, Wouldham scheme a specific earmarked reserve is established in the sum of £700,000 and that this scheme sits outside the annual allowance of £320,000 with an implementation date for capital plan purposes of 2015/16.
 - 2) Endorse the Capital Strategy as presented to the Finance, Innovation and Property Advisory Board on 8 January and the Overview and Scrutiny Committee on 28 January and recommend to Council it be adopted.
 - 3) Endorse the prudential indicators listed in paragraphs 1.6.4 and 1.6.8 and recommend to Council that they be adopted.

- 4) Endorse that for the financial year 2014/15 the Council's Minimum Revenue Provision as set out at paragraph 1.6.11 is nil and recommend to Council accordingly.
- 5) Note the updates to the Medium Term Financial Strategy as set out at **[Annexes 11a and 11b]** based on a council tax increase of 1.99% and council tax freeze respectively.
- 6) Give guidance to Full Council as to the best way forward in updating the Medium Term Financial Strategy for the next ten-year period, and setting the council tax for 2014/15.
- 7) Note and endorse the Statement provided by the Director of Finance and Transformation as to the Robustness of the Estimates and the Adequacy of the Reserves.

Background papers:

contact: Sharon Shelton
Neil Lawley

Nil

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Nicolas Heslop
Leader of the Council

Martin Coffin
Cabinet Member for Finance, Innovation and Property

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	Yes	Some changes to budgets may have potential to cause adverse impact and where this is deemed to be the case a separate report including an equality impact assessment has or will be undertaken at the appropriate time.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	This report sets out draft proposals in respect of the Budget for the forthcoming year within the context of the Medium Term Financial Strategy and the Council's priorities. As mentioned above changes to budgets where there are deemed to be equality issues a separate equality impact assessment has or will be undertaken at the appropriate time.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		See responses above.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.